May 2024 Market Update

Special points of interest:

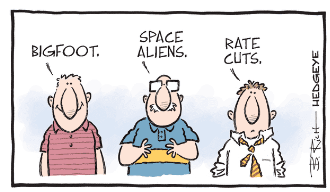
- **Equity and fixed income markets turned in positive monthly performances in May, even as oil prices languished.**
- **May's jobs report came in surprisingly strong, calling into question yet again the timing of potential Fed rate cuts.**
- **The Fed announces again on June 12 and is most likely to hold its benchmark interest rate range steady.**
- **Paradoxically, inflation remains a problem even as we've evidence of economic weakening recently.**

Inside this issue:

The Markets in May 2024

In an about-face from the prior month, May's results were a welcome introduction to the generally lower-volume summer trading season ahead. For the month, the tech-heavy Nasdaq index rocketed 6.9% higher while the S&P 500 index added 4.8% and the Dow Jones Industrial Average traded up a relatively more tame 2.3%. In what seems to be a pattern, though, commodities were mixed. Crude oil traded on the NY Mercantile Exchange dropped 6% even as gold prices turned out a modest 1.4% increase.

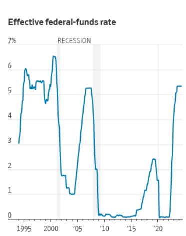
The yield on the 10-year Treasury Note backed down a step from the prior month's steep increase to end at 4.571% (from 4.686% previously) as investors began to see potential signs of easing inflation. Even so, the prospect of rate cuts seems as far away as ever. May's jobs report (seen here) came in surprisingly strong vs. economist expectations with job growth at 272k—higher than April's number and well above forecasts for 190k jobs. To be fair, the unemployment rate did tick up to 4% from 3.9% previously and job openings continue to decline, but it's not clear yet when we will see more definite signs of the long-predicted slowdown in hiring as a result of the Fed's multi-point rate increase campaign. After all, the last time the unemployment rate was at or below 4% for 30 months (as now) was the late 1960's. Are the 1970's ahead, though?



May's surprising jobs report highlights receding prospects for rate cuts—are they beginning to look like wishful thinking?

A Look Ahead

The Fed is gearing up to announce again on June 12. The central bank is most likely to hold its short-term benchmark interest rate steady in a range of 5.25%-5.5%. The question is whether they stick to their prior script of two anticipated rate cuts by year's end. This decision is complicated by inflation's stubborn persistence. Paradoxically, inflation remains a problem even as we've seen weak numbers in other government reporting areas—soft income and spending data for April as I highlighted last month and lower manufacturing sentiment for May. Further, mainstream consumer companies have warned that many consumers are pulling back on spending. What is driving inflation then? Increasingly, it appears that we are looking at two different Americas—one in which the well-off are able to continue spending even as those further down the income spectrum have to make difficult financial decisions. In the end, I think rate cuts are still just a matter of short-term timing: late 2024 or early 2025. Best to plan now.



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